

Idaho Legislative Audits
P.O. Box 83720
Boise, ID 83720-0054
208-334-2475



Idaho Department of Health and Welfare

Management Letter

Issued: June 16, 2004
Fiscal Year: 2003



LEGISLATIVE AUDITS' MANAGEMENT LETTER

DEPARTMENT OF HEALTH AND WELFARE

PURPOSE AND SCOPE. In planning and performing our audit of the statewide *Single Audit* report of the State of Idaho for the fiscal year ended June 30, 2003, we completed certain financial audit procedures on the Department of Health and Welfare's financial activities that occurred during the fiscal year. The scope of work was limited to the Department's federal major programs as determined for the statewide *Single Audit*. Therefore, we considered the internal control structure to determine appropriate procedures and required tests, along with procedures performed at other State agencies, that would allow us to express our opinion on the statewide *Single Audit* report and not to provide assurance on the Department's internal control

CONCLUSION. Although we include nine findings and recommendations, we conclude that the financial operations of the Department meet accepted standards and that the Department substantially complies with laws, regulations, rules, grants, and contracts for which we tested compliance.

FINDINGS AND RECOMMENDATIONS. The nine findings and recommendations presented below relate to the program indicated:

FINDING #1

CFDA Title: Food Stamps Administration and Certification
CFDA #: 10.561
Federal Award #: 7ID402ID4
Program Year: October 1, 2001 to September 30, 2002
Federal Agency: Department of Health and Human Services
Compliance Requirement: Special Tests
Questioned Costs: Not Determinable

Idaho's food stamp error rate has increased to 15% over the last several years and could result in sanctions on the State.

The U.S. Department of Agriculture paid \$72.3 million in food stamp benefits to Idaho recipients during fiscal year 2003. The Department of Health and Welfare received \$7.3 million to administer the food stamp program.

Federal regulations (7 CFR 275) require states to limit the number of errors in determining food stamp benefits and eligibility. Errors are identified as either over- or under-payments or "negative errors", which represent individuals who were improperly denied assistance. The maximum acceptable payment error rate, as set by the federal grantor, was 8.26% for fiscal year 2002 and is anticipated to be 6.60% for fiscal year 2003. States with error rates greater than this could see a reduction in federal funding, while those with lower error rates could receive additional funding.

The error rate for Idaho's food stamp program has increased steadily over the past several years and exceed the allowed maximums for the past two years. A reduction in federal funding of \$45,000 was waived by the federal grantor for fiscal year 2002 due to the high proportion of immigrants in the caseload. A waiver for fiscal year 2003 is unlikely, given that Idaho's payment error rate was 15.42% as of July 2003, more than twice the allowed limit. The "negative error" rate has also increased to more than 10%, indicating that over 13,000 individuals seeking assistance were improperly denied. Based on this error rate the potential sanction to the State of Idaho could exceed \$1 million from State funds.

Several other statistics also indicate potential problems that threaten the success of the food stamp program. For example, each month the Department receives about 4,500 applications for food stamps. The percentage of applications not processed within 30 days as required by federal regulations has increased statewide from about 10% to more than 13% during the last year. In some regions of the State, nearly 20% of applications take longer than 30 days to process. The average number of open food stamp cases each month has also grown by nearly 20,000 (34%) during the past two years, while Department staff assigned to this program has declined by more than 60 positions (21%).

The Department is beginning to use new federally approved methods for testing eligibility, which could reduce the error rates in coming years. Efforts are also in process to review and correct application files and benefit amounts through the use of up to 45 contract staff. However, the contracted staff is temporary and coming to a close, therefore a long-term solution is needed to reduce payment errors and the number of applicants improperly denied.

A review of error rates nationwide showed that 13 states that reduced their error rates received additional funding, including Texas and New Jersey. Efforts are needed to identify the systems, methods, and processes used by these states that could be adopted by Idaho to improve accuracy and compliance. If Idaho's error rate was reduced from the 15.42% to 5%, an additional \$700,000 in federal funding could become available.

RECOMMENDATION #1

We recommend that the Department establish a plan for a long-term solution to reduce the food stamp error rate and avoid potential sanctions by the federal program. This could include reviewing current staff resources, reassigning existing resources, evaluating the cost-effectiveness of contracted staff, improving technology, additional training, and ongoing monitoring. We also recommend that systems and processes of other states be evaluated and adopted to improve the accuracy and success of Idaho's food stamp program.

CORRECTIVE ACTION PLAN

The Department agrees with this finding. We have implemented a plan of correction that uses nationwide best practices. In June 2003, the program performed a review of open food stamp cases. Errors were identified, corrected, and their causes determined. As a result, we now review all cases identified as error prone, and we have provided necessary refresher training. Following federal recommendations, we simplified reporting requirements for families already enrolled in the program. We also have implemented a more vigorous standard for case review.

The Department believes these changes will bring the food stamp error rate to an acceptable level. We will continue to monitor resource allocation. If these measures are insufficient, additional resources will be sought from within the Department or through a Decision Unit.

Any reduction in the error rate will reduce the potential penalty. However, with four months left in the federal fiscal year, it may be impossible to avoid a penalty.

FINDING #2

State Issue

Additional options for recovery of food stamp overpayments could be pursued.

Food stamp benefits are occasionally overpaid or are provided to clients who are not eligible to receive assistance. These overpayments can occur through intentional or inadvertent errors by the client or result from errors by the Department. Federal regulation (7 CFR 273.18(k)) allows the Department to recover overpayments from clients using a variety of methods, including reductions in current food stamp benefits and offsetting State or federal tax refunds. Overpayments can also be recovered by offsetting unemployment benefits, of which the federal grantor allows the State to retain a larger share of the recovery.

The Department does not currently have the legal authority to offset a client's unemployment benefits to recover food stamp overpayments. Idaho Code, Section 72-1365 allows the offset of these benefits to collect child support debts but no authority exists to use this method to recover food stamp overpayments.

As of June 2003, the Department had a balance of nearly \$1.7 million in overpayments to be recovered. Given the increase in errors in providing food stamp benefits, as discussed in Finding #1, the authority to offset unemployment benefits would likely increase recoveries and the available funding to operate this program.

RECOMMENDATION #2

We recommend that the Department study all options allowed by federal regulations for recovery of overpayments and devise a plan for implementation of appropriate options, particularly for those overpayments resulting from intentional client errors. Options should include but not be limited to seeking amendments to Idaho Code.

CORRECTIVE ACTION PLAN

The Department agrees with this finding. The Department will form a work group to critically review the performance of our current practices, policies and rules, surrounding the collection of food stamp overpayments, their impact on households with food stamp overpayments, and any needed statutory changes. These measures currently in place to reduce the error rate will reduce the program's overpayments. The Department will continue to pursue food stamp overpayments through the consolidated Collections Unit that was implemented during fiscal year 2003.

FINDING #3

CFDA Title: Food Stamps

CFDA #: 10.561

Federal Award #: 7ID402ID4

Program Year: October 1, 2001 to
September 30, 2002

Federal Agency: Department of Agriculture

Compliance Requirement: Allowable Costs

Questioned Costs: Not Determinable

No monitoring has occurred to ensure Nutrition Education expenditures meet program objectives.

The objectives of the Nutrition Education Program are to educate food stamp applicants and recipients on the importance of a nutritious diet and the relationship of diet and health. This is an optional program within the Food Stamps Grant and requires 50% matching funds from State sources (7 CFR 272.2 (d)). The Department of Health and Welfare contracted with the University of Idaho (U of I) to provide services, which they incorporated into their Adult Education Program. The total budget for the Nutrition Education program was \$1,462,000 for fiscal year 2003, of which the required 50% matching funds were provided by the U of I.

Our review of the Nutrition Education contract showed that no monitoring was done to ensure efforts by the U of I met program requirements established by federal regulations. The source of matching funds provided by the U of I was also not clearly documented or confirmed. The Department only tracked the funds remaining under the contract and accumulated "success stories" submitted periodically by U of I Nutrition Advisors. No site visits, client file reviews, or other efforts were taken to

ensure that funds were used to provide food stamp applicants and recipients with appropriate services.

We also noted some "success stories" submitted by the U of I indicated potentially ineligible clients received services, such as grade school children, incarcerated women, and youth involved in a 4-H pie baking contest. It is unclear if these individuals were eligible for nutrition education services or if the services provided were related to the objectives of the food stamp program.

RECOMMENDATION #3

We recommend that the Department develop performance requirements under the Nutrition Education contract with the U of I that follow the limits and intentions established by federal regulations. We also recommend that the Department perform and document site visits, file reviews, or other monitoring efforts designed to ensure program funds are used for appropriate services to eligible clients.

CORRECTIVE ACTION PLAN

The Department agrees with this finding. This spring, the Department will begin contract renegotiations with the contractor (currently, the U of I) to administer Idaho's Nutrition Education Program. The new contract will include performance requirements that follow the limits and intentions of that program's regulations. The Department will document site visits, file reviews, and other monitoring efforts to ensure program funds are used for appropriate services to eligible clients.

FINDING #4

CFDA Title: Child Support Enforcement
CFDA #: 93.563
Federal Award #: G0204ID4004
Program Year: October 1, 2001 to September 30, 2002
Federal Agency: Department of Health and Human Services
Compliance Requirement: Special Tests
Questioned Costs: Not Determinable

Errors in child support debt balances remain uncorrected for over 3 years.

The 1999 Legislative Audit issued in October 2000 reported that more than 75% of debts pursued by the child support program were wrong. As a result, the Department established a "financial integrity" project and issued a contract in August 2001 to validate the audit results, analyze the financial condition of 2,500 child support cases, and design a fast, simple way to complete ongoing financial assessments of child support cases.

The final report from the contractor was issued on January 11, 2002, and included 40 recommendations to change policies and procedures, improve internal controls, and enhance the "ICES" automated case management system. Included with the final report was a Microsoft Excel workbook designed as an "assessment tool" to make financial analysis of cases easier to complete. The contractor used this tool to evaluate 1,469 child support cases and found that 919 (63%) had debt balance errors

while another 61 cases (4%) could not be evaluated because the court order or other documents were missing. The total cost of this contract was \$191,256.

As of May 2003, no efforts had been taken by the Department to correct any of the identified debt balance errors or locate the missing documents. In addition, very few of the contractor's recommendations have been implemented and the "assessment tool" has remained unused. Strategies and plans were discussed by program staff to resolve the issues, but resources and staffing necessary to follow through with these plans were either not available or were used by other programs within the Department.

A new child support receipting contract was issued in August 2003 that included a "financial analysis management" module. However, this contract does not include a comprehensive program to evaluate and correct all child support debts, establish appropriate controls to limit the opportunity for errors to occur, or prioritize and implement recommended enhancements to the "ICSES" automated system.

As a result, debt balances in the child support system continue to be wrong in more than 60% of the cases we tested. No effective changes have been made to the process or controls to limit the potential for errors during the nearly three years this issue has been known. Compounding this issue is the fact that the Department reports past-due amounts to credit agencies based on these inaccurate balances. Credit reporting is intended to be an enforcement tool to encourage non-custodial parents to pay past-due support. The credit reporting done by the Department is automated and includes all cases that have past due balances, including those with debt balance errors.

RECOMMENDATION #4

We recommend that the Department correct debt balance errors identified by the contractor, establish controls to reduce the opportunity for financial errors, establish procedures to evaluate all debt balances annually, and reassess the recommendations of the contractor to prioritize and implement potential enhancements to the automated system. These efforts should be coordinated with the new contractor to analyze and correct all child support account balances.

We also recommend that the Department suspend the credit reporting process until procedures are in place that ensure debt balances are accurate and errors are corrected promptly.

CORRECTIVE ACTION PLAN

The Department agrees with this finding. Since this audit, the Department has taken steps to reduce the errors in debt balances. Child Support has implemented controls, coordinated efforts with a new contractor, begun analyzing and correcting debt balances, and evaluated enhancements to the system. Child Support added a second level of approval for adjustments to improve control. The Child Support Program created a financial audit team to coordinate case audits and evaluations with the new contractor. The new contract provides for the audit of 400 cases each month and regular evaluations to suggest enhancements to the system.

There are approximately 71,000 active child support cases of which nearly 88% have a debt balance. Conducting an annual review of each debt balance is not practical at this time. However, both the case audit team and the monthly case audit contract along with other changes will begin to reduce and permanently maintain a lower error rate. Case audits are prioritized, partially based upon debt balance. Finally, the Department has not suspended the credit reporting process because it is a federal requirement. Debit balances greater than \$500 are required to be reported. The Department is developing a process to ensure debt balances are correct prior to proceeding with credit bureau reporting.

FINDING #5

CFDA Title: Family Planning Services
CFDA #: 93.217
Federal Award #: 5FPHPA100020-29
Program Year: July 1, 2001 to
September 30, 2002
Federal Agency: Department of Health
and Human Services
Compliance Requirement:
Allowable Costs
Questioned Costs: Not Determinable

Additional federal funds are available if Medicaid costs for family planning services were identified.

The Family Planning Services program provides a broad range of acceptable and medically approved family planning methods, including natural methods, infertility services, and services for adolescents. Program costs can also include medical services, such as examinations, prescriptions, continuing supervision, contraceptive supplies, or referral for other services when medically necessary.

Costs relating to family planning services are reimbursed by the federal government at 90%. These services are sometimes provided in connection with other medical procedures, which are paid for through the Medicaid program and reimbursed by the federal government at about 70%. These Medicaid costs could be claimed as family planning services, if appropriately identified, and reimbursed at 90%.

The Department expanded an existing contract to identify family planning costs in Medicaid claims. This effort identified nearly \$1.6 million in family planning costs incurred during the period June 2001 to March 2003, resulting in about \$315,000 in additional federal funds. However, no efforts have been taken to continue this effort and claim additional funds for costs incurred after March 2003.

Based on the prior results, we estimate that at least \$120,000 in additional federal funds could be received if Medicaid costs for family planning services since March 2003 were identified and claimed at the higher rate.

RECOMMENDATION #5

We recommend that the Department identify the costs of family planning services in Medicaid claims since March 2003 and seek additional federal funds. Efforts are also needed to establish a process to identify and seek these additional funds for family planning services on a quarterly basis.

CORRECTIVE ACTION PLAN

The Department agrees with this finding. In February 2003, the Department successfully initiated a pilot project to assess the feasibility of claiming family planning costs under the Family Planning Grant which has a higher federal reimbursement rate. Based on the assessment, the Department identified approximately \$315,000 in additional recoveries. A retroactive claim was filed in September 2003 that included family planning costs paid under Medicaid from April, 2001 through March, 2003.

As a result of the success of the pilot, the Third Party Recovery contract was amended in January 2004 to support claiming family planning costs annually. The contractor will analyze Medicaid claims data from March to April each year to identify family planning costs that can be reimbursed at a higher rate under the Family Planning Grant.

FINDING #6

Eligibility for CHIP continues to be improperly determined in 20% of cases tested.

CFDA Title: Children's Health Insurance Program (CHIP)

CFDA #: 93.767

Federal Award Number:

05-0205ID5028

Program Year: October 1, 2001 to September 30, 2002

Federal Agency: Department of Health and Human Services

Compliance Requirement: Eligibility

Questioned Costs: \$3 million (federal share of \$2.4 million)

The fiscal year 2001 audit identified that 25% of children enrolled in the CHIP program did not meet all eligibility requirements. Eligibility was improperly determined in 14 of 53 clients tested, 7 of which were eligible for other Medicaid programs while the remaining 7 were not eligible for CHIP or any other Medicaid. This issue was not reported in fiscal year 2002 because corrective actions were in process.

Errors in determining eligibility continue to exist in fiscal year 2003 at nearly the same rate. We randomly selected 30 clients and found 6 (20%) that had errors involving miscounted income or resources, or the client had other health insurance that made them ineligible for CHIP. Four clients were potentially eligible for other programs while 2 were not eligible for any other Medicaid program.

The Department response to the fiscal year 2001 audit indicated that modifications were planned for the existing "EPICS" automated eligibility system to reduce errors until a new system was developed. Some modifications were made and Department staff reviewed case files and corrected the eligibility for several hundred clients.

These efforts resulted in a 12% drop in total clients enrolled in the CHIP program, from 12,106 at June 2002 to 10,704 at June 2003. However, the new system is not yet developed, caseloads have increased, and reductions in staff have contributed to the continuing level of errors in eligibility. Total benefits paid under the CHIP program for fiscal year 2003 were approximately \$16 million, \$3 million of which is the estimated cost of services provided to ineligible clients.

Most of these costs may be claimable under other Medicaid programs at a lower federal participation rate, which would increase the State's share by more than \$200,000. The costs for clients who are ineligible for any Medicaid program could result in a refund to the federal grantor of more than \$1 million. Renewed efforts are needed to remove ineligible clients from the CHIP program and complete the new eligibility system to avoid incurring additional unallowable costs.

RECOMMENDATION #6

We recommend that the Department review case files and remove ineligible clients from the CHIP program. Additional resources and renewed efforts are also needed to complete the development of the new automated system to limit the opportunity for recurring eligibility errors.

We also recommend that the Department negotiate a resolution with the federal grantor concerning the costs for services provided to ineligible clients.

CORRECTIVE ACTION PLAN

The Department agrees with this finding. We are continuing to improve the accuracy of CHIP eligibility determinations. Some actions are in process and others have already been implemented. Case files are reviewed, the automated systems will be completed, and other changes will continue improving eligibility determinations. Besides the successful case review that reduced the enrollment 12%, the Department initiated monthly sampling of open CHIP cases. The automated eligibility determination system is scheduled to be operational in early 2005. The CHIP eligibility determination function is being studied to determine if it can be merged with other Medicaid program eligibility determinations to improve accuracy.

As the audit report shows, the Department has reduced eligibility errors from 25% to 20%. Moreover, the Department has reduced the rate of error for enrolling clients when they are not eligible for other Medicaid programs from 13% to 7%. Continued efforts will reduce this error rate further.

FINDING #7

State Issue

The need or amount of adoption subsidies for hard-to-place children is not evaluated annually as required by Idaho Code.

Idaho Code Title 56 Chapter 8 requires the Department to seek adoptive parents for hard-to-place children who reside in State-funded foster or institutional homes. Financial aid is available to the adoptive parents, in the form of monthly subsidy payments, which must not exceed the cost of foster or institutional care.

The Department is required by Idaho Code to perform annual evaluations of both the need for continued adoption subsidies and the amount for each child in the program. There were about 800 children who received \$2.5 million in subsidies during fiscal year 2003. Subsidies are available until the child reaches age 18, gets married, dies, or the adoptive parents are no longer legally responsible for the child.

Each year the Department sends a form letter to all adoptive parents asking them to respond only if they wish to change the subsidy amount or to notify the Department of a change in the child's eligibility. This form letter clearly states that if no changes are needed, the adoptive parents can simply discard the letter and do nothing. Very few parents respond and no other efforts are taken to confirm the child's eligibility, the need for the subsidy, or whether the amount is appropriate. All of the adoption cases we selected for review had no direct evidence that the Department was aware of the location or condition of the adopted child. Many of these cases involved children who had been adopted more than five years ago.

Idaho Code states that after an adoption of a hard-to-place child is finalized, the family is independent of the Department except for an annual evaluation. The Department follows a "hands off" approach and acts only when the adoptive parents communicate a change in circumstances or need for additional subsidies. Without a complete annual evaluation detailing the child's condition, the opportunity exists that subsidies are provided when the child is no longer benefitting or the amount is inappropriate for the child's needs or situation.

RECOMMENDATION #7

We recommend that the Department perform annual evaluations that provide direct assurance of the continued need and amount of adoption subsidies. Efforts should include requiring adoptive parents to return a completed annual evaluation form. The Department should also consider reviewing other public records, such as vital statistics, school enrollment, or Social Security assistance payments to confirm the continued eligibility of the child.

CORRECTIVE ACTION PLAN

The Department agrees with this finding. The Department implemented changes to its Adoption Assistance Program annual review in February 2004. Each family receiving adoption assistance benefits is now required to return an annual review form certifying they are still legally responsible for the child and that they are still in need of the adoption assistance benefits. Families are also provided the opportunity to request re-negotiation of their current benefits at this time. Families must return the form for each child or their benefits will be suspended until the form is received by the Department. The Adoption Assistance Program Agreement has also been amended to instruct families that they must return the annual review form verifying the family is still legally responsible for the child.

FINDING #8

Errors in the cost allocation processes omitted charges to the Child Support and Food Stamp programs.

CFDA Title: Child Support Enforcement and Food Stamps
CFDA #: 93.563 and 10.561
Federal Award #: Child Support G0204ID4004 Food Stamps 7ID402ID4
Program Year: October 1, 2001 to September 30, 2002
Federal Agency: Department of Health and Human Services
Compliance Requirement: A-87 Cost Principles
Questioned Costs: Not Determinable

The Department uses a sophisticated cost allocation process to allocate general and administrative costs to federal grants and other programs each month. Administrative costs are accumulated in several "cost pools," which are allocated based on various statistics. About 30 different statistics are gathered each month and include such amounts as transaction counts, employee hours, and total expenditures.

We tested several allocations and found that some statistics were omitted in allocating the cost pool for the Financial Services Bureau. This bureau is responsible for payment processing, accounting, and grant reporting for all programs. The costs in this pool are allocated based on total expenditures; however, this

total excluded more than \$10 million each month in child support transactions, which represents about 10% of the total financial activity of the Department. These transactions were excluded because a new electronic payment system was implemented in fiscal year 1999, but the method for accumulating the payment statistic was not modified for this change. As of July 2002, most child support payments were paid electronically and we estimate that at least \$400,000 in administrative costs were not charged to the Child Support program during fiscal year 2003.

Food stamp benefit costs were also excluded from the statistics used to allocate the Financial Services Bureau costs. Although these costs are not directly recorded in the Department's accounting system, significant time and resources of the bureau are used to account for and report this activity. As a result, the Food Stamp program received fewer allocated costs because more than \$60 million a year in benefit costs were excluded from the statistics. We estimate that at least \$200,000 in administrative costs were not charged to the Food Stamp program during fiscal year 2003.

The combined affect of these omitted statistics resulted in at least \$600,000 in administrative costs allocated in error to other grants, primarily the Medicaid program. Had these costs been properly allocated during fiscal year 2003, more than \$70,000 in additional federal funding could have been received because of higher funding ratios in the child support and other federal grant programs.

RECOMMENDATION #8

We recommend that the Department include the child support and food stamp expenditures in the statistics used to allocate Financial Services Bureau costs. We also recommend that the Department correct monthly allocations for fiscal year 2003, which could generate \$70,000 or more in additional federal funding.

CORRECTIVE ACTION PLAN

The Department agrees with this finding. Management Services changed the Department's cost allocation program to include child support and food stamp transactions. We made an adjustment to recover the additional federal funding in September 2003.

FINDING #9

Funding for community-supported employment and related

services is not coordinated or monitored.

The Department receives annual General Fund appropriations and federal grant funds to pay contractors for community-supported employment and related services for developmentally disabled clients. Contractors also sell goods and services as a result of these programs, some of which are purchased by the Department of Health and Welfare and other State agencies.

During fiscal year 2003, approximately \$3.2 million was paid to contractors by the Department for community-supported employment and related services. In addition, about \$297,000 of goods and other services were purchased by the Department. Other State agencies, including the Idaho Division of Vocational Rehabilitation (IDVR), Department of Labor, and Department of Administration also purchased more than \$1.8 million for services to clients or other goods and services. Contractors also collect revenue from the sale of goods and services to outside entities and the general public, but the amount is not known.

In addition, many of the contractors also provide mental health and related services which are billed to the Medicaid program. During fiscal year 2003, more than \$7 million in Medicaid funds were paid to these contractors.

Coordinating and monitoring the funding for community support employment and related services is essential, given the amount of funds involved from multiple sources, and the need to ensure that all resources are properly accounted for and applied. However, no funding is provided to the Department, or any other State agency, to conduct monitoring or coordinate funding and services. Without a full accounting of program costs and related revenues, the Department is unable to ensure that General Fund support at the current level is adequate or excessive to meet program objectives.

The potential also exists that contractors could claim reimbursement twice for the same service, or bill identical services at different rates to more than one funding source or entity. For example, we compared "job coaching" services billed by one contractor to the IDVR and the Department. The rate billed to IDVR was \$42.40 per hour, while the rate billed to the Department was \$33.00 per hour. Although differences may exist in the type or level of service provided, a uniform rate could generate cost savings if contracts for services were coordinated. Our limited evaluation did not disclose any

obvious duplicate charges, but detailed data needed to identify such events was not readily available.

Recent staffing and funding cuts have limited the abilities of regional offices of the Department to include these programs in other monitoring efforts. The consolidation and realignment of programs by the Department during fiscal year 2002 also reduced the number of staff knowledgeable about these programs and services. No funding is allotted to administer this program from the amounts appropriated each year.

RECOMMENDATION #9

We recommend that the Department seek funding to develop a comprehensive monitoring program for community-supported employment and related services. The monitoring program should identify all program costs, funding entities and sources, and include efforts to coordinate services and contracts by various State agencies.

CORRECTIVE ACTION PLAN

The Department agrees with this finding. Responsibility for the oversight of Employment Services will be transferred to the Department of Vocational Rehabilitation effective July 1, 2004. The Department of Health and Welfare agrees with the results of the audit and will pass the information from the audit to Vocational Rehabilitation. Department of Health and Welfare representatives will participate in the Vocational Rehabilitation Task Force addressing the transfer of services and the audit findings.

PRIOR FINDINGS AND RECOMMENDATIONS. The prior audit report covered fiscal year 2002 and included eight findings and recommendations. Following is the status of those recommendations as of December 31, 2003:

PRIOR FINDING #1

The Department does not pursue absent parents for Medicaid costs as required by federal regulation.

Status: IN PROGRESS

We recommended that the Department take steps to develop and implement a strategy to pursue and recover Medicaid costs from absent parents. Efforts should include identifying children on Medicaid who have an absent parent resource and seeking data from the child support program or other sources to locate the absent parents and pursue the recovery of Medicaid costs.

The Department is undertaking a study to capture the costs associated with pursuing ongoing medical costs from absent parents who do not have insurance coverage. Based on the

results of that study, the Department will either begin pursuing those costs or seek a cost effectiveness waiver from the Centers for Medicare and Medicaid Services.

PRIOR FINDING #2

Status: IN PROGRESS

A computer system edit was removed, which allowed the erroneous payment of several million dollars.

We recommended that the Department evaluate all claims paid during the period when the date edit was removed and identify the amounts paid beyond the time limits imposed by federal regulation. Efforts should then be taken to either seek a recovery from providers or initiate a dialog with the federal grantor to resolve the potential questioned costs.

The Department acknowledges the audit finding that some of the amounts paid were beyond the time limits imposed by federal regulations. The Department has established a team to review all of the disputed claims and is discussing with the federal grantor the amount of costs disallowed. The Department believes the amount disallowed will not be as much as the audit finding identified and will resolve this finding by May 2004.

PRIOR FINDING #3

Status: CLOSED

Medicaid cost recoveries were returned to the federal grantor at the wrong ratio.

We recommended that the Department identify cost recoveries to the Medicaid program that originally paid the cost and return the appropriate share to that program. Amounts retained in error during fiscal year 2002 and beyond should also be identified and returned to the federal grantor.

The Department corrected past receipts that could be identified and corrected the procedures for all future receipts.

PRIOR FINDING #4

Status: IN PROGRESS

Eligibility for all Medicaid clients is not supported by the primary eligibility system.

We recommended that the Department implement procedures to reconcile the eligibility data in the EPICS and AIM systems. Efforts should include identifying and resolving variances and ensuring that all periods of eligibility are properly recorded and documented.

The Department is implementing a new eligibility system called Case Management Information System that will better manage eligibility requirements, reduce differences between AIM and

EPICS, and ensure accurate determination of coverage groups. The new eligibility system will be phased in beginning in November 2004. The Department will review its reconciliation reports and resolve any outstanding eligibility discrepancies.

PRIOR FINDING #5

Status: CLOSED

Gift certificates of nearly \$100,000 were purchased to avoid time limits for using funds.

We recommended that the Department return the value of gift certificates held for more than a year to the federal grantor and the State General Fund. A reduction in current year funding could be required if the gift certificates cannot be redeemed for cash from vendors. We also recommended that the purchase of gift certificates be reduced or eliminated as it exposes program funds to significant risk of loss or improper use.

As of September 30, 2003, all certificates were expended. The Division of Family and Community Services acknowledges the risks of purchasing gift certificates and has implemented changes to minimize the use of gift certificates and reduce risk.

PRIOR FINDING #6

Status: CLOSED

The required spending levels for substance abuse treatment services were not supported by actual costs.

We recommended that the Department identify the actual costs for alcohol treatment and drug treatment services charged to the Substance Abuse Prevention and Treatment Block Grant. The practice of coding costs based on predetermined percentages should be discontinued. The Department should obtain actual cost data by service type from the vendor and require program staff to document efforts to ensure that vendor invoices are properly calculated and supported.

The Department has initiated changes in its accounting practices that were fully implemented in February 2004. Actual costs of services are identified by each contract bill, and earmarking is monitored monthly.

PRIOR FINDING #7

Status: CLOSED

Donations, bequests, and other trust funds totaling \$1.3 million were not used.

We recommended that the Department identify the available uses and requirements for all amounts held in the Health and Welfare Trust Fund, and develop plans that would apply these resources to the intended activities. We also recommended that amounts held in this fund, that are not related to a donation be transferred to the operating fund and included in current program funding.

The Department has spent down the balances or issued contracts for those trusts that can be used during the current year. There are other trust accounts that remain unspent due to requirements of the account that only allow for certain types of expenditures. All of the programs with such trust accounts are aware of the balances and will continue to look for opportunities to appropriately use the balance.

PRIOR FINDING #8

Status: CLOSED

Incomplete inspections of tobacco retailers were counted toward meeting Idaho Code requirements.

We recommended that the Department exclude incomplete inspections in satisfying the requirements of Idaho Code. We also recommended that existing rules be amended to require all fines be paid before a seller's permit can be renewed, and that the tracking system be evaluated to ensure that all fines are properly recorded and assessed.

The majority of this issue was resolved with the passage of Senate Bill 1067 during the 2003 legislative session, which created a "Minor Exempt Permit" and eliminated the requirement that minors participate in inspections of bars and other retailers that have an age restriction over 18. Other efforts to identify the hours and dates when retailers are open will increase the likelihood of a successfully completed inspection.

AGENCY RESPONSE. The Department has reviewed this information and submitted its response, included as the Corrective Action Plan sections of this report.

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This letter is intended solely for the information and use of the Department of Health and Welfare and the Idaho Legislature, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the Department and its staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits

Don Berg, CGFM, Managing Auditor

Report SA27003

For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.
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